

# Nunavut Liquor Commission ANNUAL REPORT, 2008-09

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TABLED IN THE LEGISLATIVE ASSEMBLY  
BY THE HONOURABLE KEITH PETERSON, MLA  
MINISTER OF FINANCE



# Nunavut Liquor Commission

## 2008-09 Annual Report

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### Table of Contents

LETTER OF TRANSMITTAL .....	4
LETTER TO THE MINISTER.....	6
ORGANIZATIONAL STRUCTURE .....	7
LIQUOR ENFORCEMENT AND INSPECTIONS .....	8
NUNAVUT LIQUOR COMMISSION .....	8
MANAGEMENT DISCUSSION, ANALYSIS AND UNAUDITED SCHEDULES .....	11
AUDITED FINANCIAL STATEMENT.....	14



## LETTER OF TRANSMITTAL

The Honourable Edna Ekhivalak Elias  
Commissioner  
Government of Nunavut

Dear Madame,

I have the honour of presenting the Annual Report for Nunavut Liquor Commission covering the period April 1, 2008 to March 31, 2009.

Respectfully submitted,



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Hon. Keith Peterson  
Minister of Finance,  
Minister Responsible for Liquor



## LETTER TO THE MINISTER

The Honourable Keith Peterson  
Minister of Finance,  
Minister Responsible for Liquor

### Nunavut Liquor Commission 2008-2009 Annual Report

Pursuant to Subsection 9(1) and 61(1) of the Liquor Act, we are pleased to submit the 2008-2009 Annual Report for Nunavut Liquor Commission for the fiscal year ended March 31, 2009.

We wish to express our thanks to all of our staff for their support and contribution to the progress of Nunavut Liquor Commission during this past year.

*CD*

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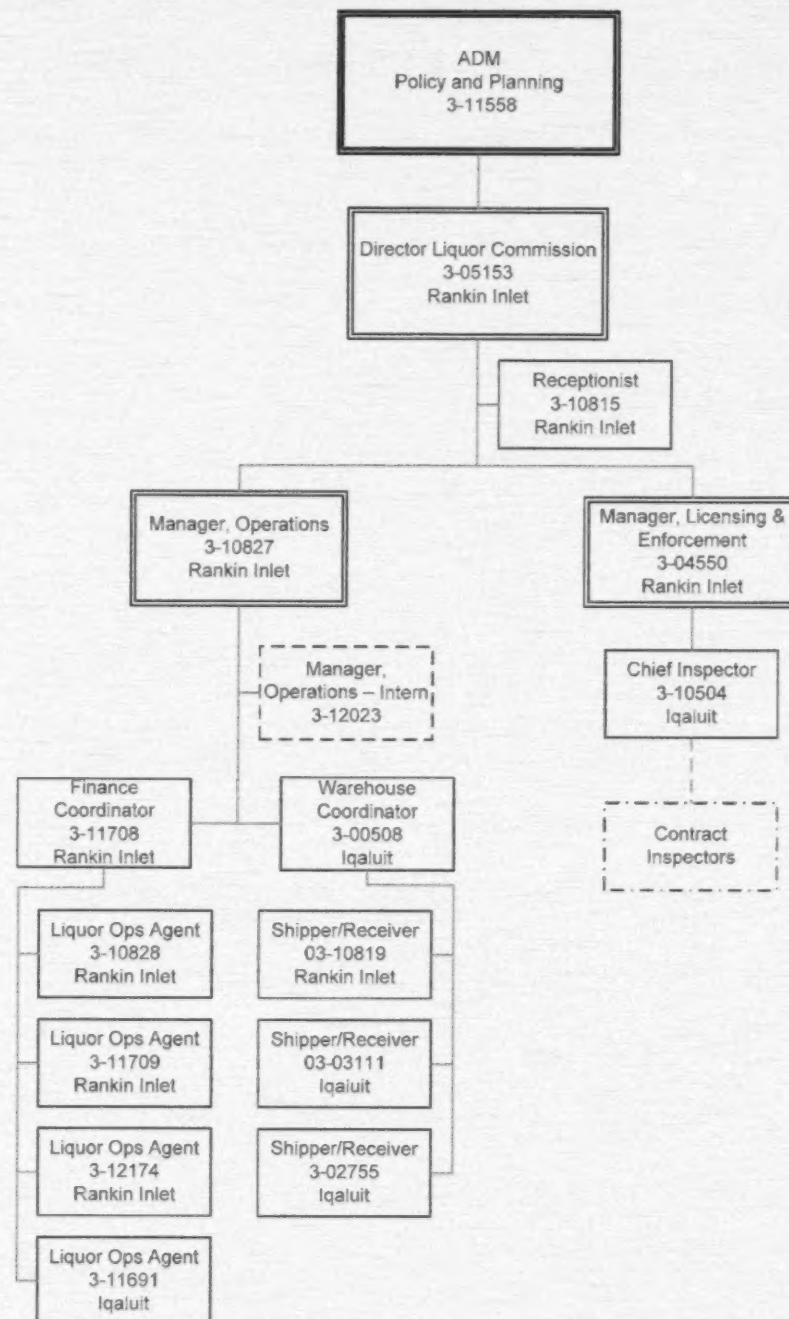
Chris D'Arcy  
Assistant Deputy Minister  
Policy and Planning  
Department of Finance



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Peter Ma, CA  
Deputy Minister of Finance and  
Interim Comptroller General

## ORGANIZATIONAL STRUCTURE



## LIQUOR ENFORCEMENT AND INSPECTIONS ENFORCEMENT AND INSPECTIONS ACTIVITY REPORT

All distribution of liquor products authorized by liquor licenses and special occasion liquor permits issued under the *Nunavut Liquor Act* (the Act) are subject to inspection by The Nunavut Liquor Enforcement and Inspections Branch of the Department of Finance. These inspections, also known as spot checks, are to ensure adherence to the Liquor Act and regulations. Fire risk, health and safety infractions, and the use of tobacco around premises licensed for the sale of liquor are also liable to inspection.

Inspections are carried out by trained contract personnel. Any infractions observed are brought to the attention of the Chief Inspector in Iqaluit, who reports to the Manager of Enforcement and Inspections at Liquor Commission headquarters in Rankin Inlet.

Significant code violations are discussed with the Department of Justice and, where warranted, the licensee must attend a show cause hearing before the Nunavut Liquor Licensing Board, with the Department of Justice acting as prosecutor. Such hearings may result in the imposition of restrictions in accordance with the Act, and may result in license suspensions.

Nunavut Liquor Management keeps a roster of contract inspectors in Iqaluit and one in Rankin Inlet. In 2008-2009, Nunavut Liquor Commission spent \$33,810 on spot checks, or \$6,762 per liquor inspector, at a rate of \$30 per inspection. The total number of inspections for 2008-2009 was 1,127, an average of 225 per inspector.

## NUNAVUT LIQUOR COMMISSION ORGANIZATIONAL OVERVIEW

The Nunavut Liquor Commission (the Commission) is responsible to the Minister of Finance, the Minister responsible for Liquor. The Commission is charged with operating liquor stores, purchasing, selling, classifying and distributing liquor in Nunavut, as well as administration of Part II of the Act. The Commission follows the reporting stipulations outlined in Part II of the Act and Part IX of the *Financial Administration Act*.

The Commission is headed by a Director/General Manager who reports to the Minister through the Assistant Deputy Minister Policy and Planning and Deputy Minister of Finance. The Director oversees a staff of 14 employees, divided between Rankin Inlet and Iqaluit, along with contract liquor enforcement inspectors in Iqaluit, Rankin Inlet, and Cambridge Bay.

With its headquarters in Rankin Inlet, the Commission manages its retail and wholesale business through two distribution warehouses, one in Rankin Inlet and the other in Iqaluit. The Commission also oversees permit offices in Cambridge Bay and Kugluktuk, while providing permitting services in-house in Iqaluit and Rankin Inlet. The Permit Agent Offices provide, for a fee, import permits to allow individuals to bring in liquor from outside Nunavut.

## LIQUOR RETAILING IN THE TERRITORY

Nunavut's geographical and infrastructure challenges make liquor retailing in the Territory unconventional in the Canadian context. With a total population of approximately 32,000 people, the major challenge for liquor retailing is the need to service a very limited market, connected only by air and limited seasonal sea access, spread out over a fifth of Canada's land mass.

Among the many characteristics that set Nunavut's liquor distribution system apart from other jurisdictions in Canada, is its central processing structure. The Commission currently does not operate any liquor stores; all liquor orders are processed through the Commission's headquarters in Rankin Inlet.

Orders are then distributed via air cargo from one of two of the Commission's warehouses. Licensed outlets are the exception, where their purchases are picked up at the closest Commission warehouse.

The Commission's reliance on air cargo for the distribution of liquor orders means that liquor purchases in Nunavut are faced with logistical considerations and additional freight and marshalling costs not commonly experienced across Canada. Iqaluit residents purchase from the Rankin Inlet warehouse. Rankin Inlet residents purchase from the Iqaluit warehouse. All other eligible residents of Nunavut may place their order at either facility. This measure ensures there are no direct sales of liquor to the public anywhere in Nunavut, except in licensed establishments.

In addition, flight schedule structures impose a de facto waiting period on liquor purchases in the Territory (Licensees and Special Occasion Permit Holders excepted).

To take advantage of the Government of Nunavut's greater purchasing power, the Commission's liquor inventory is purchased by the Department of Community and Government Services' Procurement and Contract Services Division.

Every effort is made to maximize warehouse space and accommodate as much inventory as possible through sealift. However, warehouse capacity issues in Iqaluit necessitate a small air cargo resupply each spring until the shipping season starts again in early July.

Whenever possible, the Commission purchases its products directly from suppliers of beverage alcohol products. However, due to small order volumes, some products are purchased through the Société des Alcools du Québec (SAQ) or the Liquor Control Board of Ontario (LCBO).

The Commission uses a flat rate per litre mark-up in the pricing of liquor products. An administration fee of \$0.27 per litre is also applied.

Current mark-ups per litre are as follows:

Spirits	\$ 26.11
Wine	\$ 7.96
Coolers	\$ 3.27
Beer	\$ 2.37

One logistical hurdle concerns the payments of liquor orders through the Commission. At the present time certified money instruments that include Money Orders, Northern Store money transfers and/or Cash Link Card, certified cheque, bank draft, or direct deposit to the Commission's bank account are all accepted as payment vehicles.

The Commission also accepts credit cards (Visa and Mastercard) for product payment, while residents of Iqaluit and Rankin Inlet are able to use debit cards for payment.

Over and above the product price, there is an additional charge for handling and local cartage of \$10.00 per order, and a bottle deposit return fee. The shipment is then sent freight-collect to the customer. Freight costs vary, depending on distance, community, and carrier used.

Nunavummiut may also make a purchase through an import permit, which allows them a wider range of options for both selection and price. Should they choose to import their liquor from outside the territory, individuals must purchase an import permit from one of the four permit agent offices in Cambridge Bay, Kugluktuk, Rankin Inlet or Iqaluit.

An import permit is required to import quantities greater than 1,140 ml of spirits or wine or 4,260 ml of beer (12 355 ml containers). The current import permit fee structure is as follows:

Import Permit Fees	
Spirits	\$3.75 per litre
Wine	\$2.00 per litre
Coolers	\$0.59 per litre
Beer	\$0.56 per litre

In communities governed by an Alcohol Education Committee (AEC), individuals apply to their AEC to gain approval to bring beverage alcohol into the community. AECs may place restrictions on a requester or deny an application. Once an individual has obtained permission from the community AEC, an order may be placed or a permit purchased.

**Table 1. Nunavut's Liquor Restriction Systems**

The *Liquor Act* provides Nunavummiut with a ranked liquor restriction structure based on four systems, ranging from standard access to total exclusion. Communities choose their appropriate system by plebiscite. Described under section 48.2 of the Act these systems are:

1. An unrestricted system in which the community is subject only to the general liquor laws of Nunavut;
2. A restricted quantities system in which, in addition to the general liquor laws, the quantity of liquor that a person may purchase is limited;
3. A committee system, in which a locally elected alcohol education committee decides:
  - who may consume, possess, purchase or transport liquor in the settlement, municipality or area,
  - who may import liquor into the settlement, municipality or area under the Act,
  - the amount of liquor that a person may possess, purchase, transport or import in the settlement, municipality or area,
  - who may apply for a wine permit in the settlement, municipality or area and the amount of wine that a person may apply to make, and
  - who may brew beer for personal or family consumption in the settlement, municipality or area and the amount of beer that a person may brew,
4. A prohibition system, which prohibits the consumption, possession, purchase, sale or transport of liquor within the settlement, municipality or area.

**Table 2. Breakdown of communities by their chosen systems:**

Unrestricted System	Committee System	Prohibition System
Bathurst Inlet Grise Fiord Iqaluit Rankin Inlet Taloyoak	Arctic Bay Baker Lake Cambridge Bay Cape Dorset Chesterfield Inlet Clyde River Hall Beach Igloolik Kugluktuk Pond Inlet Qikiqtarjuaq Repulse Bay Resolute Bay Whale Cove	Arviat Coral Harbour Gjoa Haven Kimmirut Pangnirtung Sanikiluaq Kugaaruk

# MANAGEMENT DISCUSSION, ANALYSIS AND UNAUDITED SCHEDULES

2008-2009 was the Nunavut Liquor Commission's fourth full year of operations, since taking over responsibility for the public agency from the Government of the Northwest Territories in October 2004. Previously, the Commission's functions had been managed by the NWT Liquor Commission.

During 2008-2009, the Commission sold 535,311 litres of beverage alcohol, totalling \$5,098,000.

## Sales of beverage alcohol

	2008-2009		2007-2008		Change vs. 2007-2008	
	Litres	\$000s	Litres	\$000s	Litres	\$000s
<b>Spirits</b>	41,569	1,547	45,063	1,384	-3,494	163
<b>Wine</b>	26,985	421	25,849	358	1,136	63
<b>Cooler</b>	10,209	80	5,588	40	4,621	40
<b>Beer</b>	456,548	3,050	529,598	3,020	-73,050 (-16%)	30 (+0.98%)
<b>Total</b>	535,311	5,098	606,098	4,802	-70,787	296

Warehouse Sales Litres	Iqaluit		Rankin Inlet		Total		Change
	2008-2009	2007-2008	2008-2009	2007-2008	2008-2009	2007-2008	
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	
<b>Spirits</b>	29,929	41,007	11,640	4,056	41,569	45,063	-3,494
<b>Wine</b>	22,127	25,590	4,858	259	26,985	25,849	1,136
<b>Cooler</b>	8,269	4,862	1,940	726	10,209	5,588	4,621
<b>Beer</b>	415,458	497,822	41,090	31,776	456,548	529,598	-73,050
<b>Total</b>	475,783	569,281	59,528	36,817	535,311	606,098	-70,787

Warehouse Sales (\$'s)	Iqaluit		Rankin Inlet		Total		Change
	2008-2009	2007-2008	2008-2009	2007-2008	2008-2009	2007-2008	
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	
<b>Spirits</b>	1,116	1,074	431	310	1,547	1,384	163
<b>Wine</b>	346	345	76	13	422	358	64
<b>Cooler</b>	65	39	15	1	80	40	40
<b>Beer</b>	2,787	2,974	262	46	3,049	3,020	29
<b>Total</b>	4,314	4,432	784	370	5,098	4,802	296

Import Permits, Licences, and Special Occasion Permits generated a total of \$680,790 in revenue. This is broken out by \$512,431 in "Import Permit Fee's" and \$168,359 in "License Renewal Fee's and Special Permits".

	2008-2009	2007-2008	Change
Import Permits	512,431	465,282	47,149
License & SOP	168,359	160,618	7,741
Total	680,790	625,900	54,890

Commission staff is challenged by a number of complex issues. Some issues are systemic in nature and require changes to the Commission's business process.

Warehouse capacity in Iqaluit is insufficient, requiring a costly annual spring airlift resupply. While a new facility would be one solution to the problem, such a capital expenditure must fit the Government of Nunavut's capital expenditure. Other issues are the result of normal growing pains experienced by young organizations, usually involving the evolution of physical and human resources best practices.

The Commission is working to increase warehouse capacity through efficient inventory storage and shipping methods, better purchasing procedures, reducing bureaucratic red tape, and moderating air freight charges to customers.

The Commission struggled in 2008-2009 with additional costs of flying in a substantial amount of product due to a significant short-ship during the 2008 sealift season.

Gross sales saw an increase of \$296,603 or 6.2% between 2007-2008 and 2008-2009. The Gross Margin increased by \$224,103 or 8.7%, and the Net Income increased by \$220,642 or 27.4%.

The sealift order, which is placed during the winter for the following spring sealift, is based on current inventory levels, prior year sealift received, historical sales history, projected sales for the following year and input from individual customers and licensees. In addition, the capacity of the warehouses in Rankin Inlet and Iqaluit is also a factor in the estimated order.

Freight costs of the sealift are substantially lower than that of airlift shipments. In 2008-2009, a large quantity of product was shipped in by air.



# AUDITED FINANCIAL STATEMENT

The financial transactions of the Liquor Licensing Board and Liquor Licensing and Enforcement are processed through the Nunavut Liquor Commission. The audited financial statements are therefore a consolidation of the financial activities incurred to administer Part I as well as Part II of the Liquor Act.

# **NUNAVUT LIQUOR COMMISSION**

Rankin Inlet, NU

## **CONSOLIDATED FINANCIAL STATEMENTS**

For the Year Ended March 31, 2009

**NUNAVUT LIQUOR COMMISSION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
March 31, 2009

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<b>INDEX</b>	<b>Page</b>
MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING	1
AUDITOR'S REPORT	2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheet	3
Consolidated Statement of Operations and Comprehensive Income	4
Consolidated Statement of Amount Due to the Government of Nunavut	5
Consolidated Statement of Cash Flows	6
Notes to the Consolidated Financial Statements	7 - 16
Schedule of Income and Expenses:	
- Nunavut Liquor Commission	17
- Nunavut Liquor Enforcement and Inspections Division	18

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of these consolidated financial statements for the Nunavut Liquor Commission and related information contained in the Annual Report are the responsibility of the management of the Nunavut Liquor Commission.

The accompanying consolidated financial statements were prepared by management in conformity with Canadian generally accepted accounting principles. Furthermore, the consolidated financial statements include some amounts, such as amortization of assets and the provision of employee future benefits that are based on management's best estimates and judgment.

The management of the Nunavut Liquor Commission fulfills its accounting and reporting responsibilities for the Nunavut Liquor Commission by maintaining systems of financial management and internal control. These systems are continually enhanced and modified to provide accurate information, to safeguard and control assets and to ensure that all transactions are in accordance with the *Liquor Act* and the *Financial Administration Act*.

The Commission's management recognizes its responsibility for conducting the affairs of the Nunavut Liquor Commission in accordance with the requirements of applicable laws and sound business principles and for maintaining standards of conduct that are appropriate for a territorial statutory body.

The Auditor General of Canada received a mandate, beginning for the fiscal year ended March 31, 2007 to conduct an annual audit of the consolidated financial statements in order to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows for the year. During the course of the audit, she also examines transactions that have come to her notice, to ensure that they are, in all significant respects, within the statutory powers of the Nunavut Liquor Commission.

*C. D'Arcy*

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Chris D'Arcy  
Assistant Deputy Minister  
Policy and Planning  
Department of Finance



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Peter Ma, CA  
Deputy Minister of Finance, and  
Interim Comptroller General

March 29, 2010



## AUDITOR'S REPORT

To the Minister of Finance Government of Nunavut

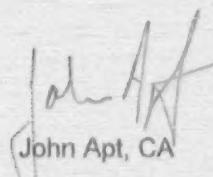
I have audited the consolidated balance sheet of the Nunavut Liquor Commission as at 31 March 2009 and the consolidated statements of operations and comprehensive income, amount due to the Government of Nunavut and cash flows for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nunavut Liquor Commission as at 31 March 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act* of Nunavut, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, except for the failure to meet the deadline for submitting its annual report as described in the following paragraph, proper books of account have been kept by the Nunavut Liquor Commission and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Nunavut Liquor Commission that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Liquor Act* (Nunavut) and regulations and the by-laws of the Nunavut Liquor Commission.

Under section 100(1) of the *Financial Administration Act* of Nunavut, the Nunavut Liquor Commission is required to submit its annual report to the appropriate Minister no later than 90 days after the end of its financial year, or an additional period, not exceeding 60 days, that the Minister of Finance may allow. The Nunavut Liquor Commission did not meet its statutory deadline for submitting its annual report.



John Apt, CA

Principal  
for the Auditor General of Canada

Ottawa, Canada  
29 March 2010

# NUNAVUT LIQUOR COMMISSION

## CONSOLIDATED BALANCE SHEET

As at March 31,	2009	2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 550	\$ 250
Accounts receivable	51,149	93,267
Inventories (note 5)	1,046,077	886,111
Prepaid expenses	-	23,460
	1,097,776	1,003,088
<b>Property and Equipment (note 6)</b>	<b>53,080</b>	<b>66,175</b>
	<b>\$ 1,150,856</b>	<b>\$ 1,069,263</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 856,830	\$ 311,167
Employee future benefits (note 7)	35,657	38,827
Bottle deposit outstanding	21,412	17,560
Deferred revenue	35,563	29,191
Due to Government of Nunavut	201,394	672,518
	\$ 1,150,856	\$ 1,069,263
<b>Commitments (note 8)</b>		

Approved:

*C. D'Arcy*

Chris D'Arcy  
Assistant Deputy Minister  
Policy and Planning  
Department of Finance



Peter Ma, CA  
Deputy Minister of Finance, and  
Interim Comptroller General

The accompanying notes and schedules are an integral part of these consolidated financial statements. 3

**NUNAVUT LIQUOR COMMISSION**  
**CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME**

For the year ended March 31,	2009	2008
<b>Sales</b>	<b>\$ 5,098,236</b>	<b>\$ 4,801,633</b>
<b>Cost of Sales</b>	<b>2,305,276</b>	<b>2,232,776</b>
 <b>Gross Margin</b>	 <b>2,792,960</b>	 <b>2,568,857</b>
<b>Other Income</b>		
Import fees	512,431	465,282
Licence, fees and permits	168,359	160,618
	3,473,750	3,194,757
 <b>Expenses</b>		
Salaries and benefits	1,362,728	1,348,122
Rent	401,516	401,516
Bottle deposits refund	202,375	152,679
Contractor fees	101,276	145,831
Utilities	82,835	71,874
Professional fees	62,200	7,659
Office	61,585	81,727
Repairs and maintenance	53,570	32,182
Travel	51,680	77,358
Bank charges and interest	34,691	17,328
Amortization	13,095	20,240
Communication	11,424	9,723
Advertising and promotion	5,657	32
Bad debt provision	3,077	-
Computer services	-	3,576
Penalties and interest	-	10,236
Honoraria	-	9,275
	2,447,709	2,389,358
 <b>Net Income and Comprehensive Income</b>	 <b>\$ 1,026,041</b>	 <b>\$ 805,399</b>

**NUNAVUT LIQUOR COMMISSION**  
**CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF**  
**NUNAVUT**

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For the year ended March 31,	2009	2008
Balance, beginning of year	\$ 672,518	\$ 649,032
Net income for the year	1,026,041	805,399
Net transfer of funds to the Government of Nunavut	( 1,497,165)	( 781,913)
 Balance, end of year	 \$ 201,394	 \$ 672,518

The accompanying notes and schedules are an integral part of these consolidated financial statements. 5

# NUNAVUT LIQUOR COMMISSION

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31,	2009	2008
<b>Cash Flows from Operating Activities</b>		
Cash receipts from customers	\$ 5,827,516	\$ 5,391,173
Cash paid to suppliers and employees	( 4,330,051)	( 4,593,797)
Cash transferred to the Government of Nunavut	( 1,497,165)	( 781,913)
<b>Cash Provided by Operating Activities</b>	<b>300</b>	<b>15,463</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of furniture and equipment	-	( 15,463)
<b>Cash Used in Investing Activities</b>	<b>-</b>	<b>( 15,463)</b>
<b>Net Increase / (Decrease) in Cash</b>	<b>300</b>	<b>-</b>
<b>Cash, beginning of year</b>	<b>250</b>	<b>250</b>
<b>Cash, end of year</b>	<b>\$ 550</b>	<b>\$ 250</b>

The accompanying notes and schedules are an integral part of these consolidated financial statements. 6

# **NUNAVUT LIQUOR COMMISSION**

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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March 31, 2009

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### **1. Authority and Operations**

The Nunavut Liquor Commission (NLC) - The Commission is established under Part II of the *Liquor Act (Nunavut)*.

The Commission is responsible for the operation of the liquor warehouses and the purchase and sale of liquor in Nunavut through the Liquor Revolving Fund of the Government of Nunavut. The Commission is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding \$6,500,000 to finance its operations. The NLC did not request any working capital advances for the 2008 - 2009 fiscal year, as the Government of Nunavut currently covers all of the expenses of the Nunavut Liquor Commission.

The Nunavut Liquor Enforcement and Inspections Division is responsible for ensuring that all distribution of liquor products is authorized by liquor licenses and special occasion liquor permits issued under the *Liquor Act (Nunavut)*.

The Commission, in addition to its regular responsibilities, manages, directs and provides financial services to, and on behalf of, the Nunavut Liquor Enforcement and Inspections Division. As such, the Commission controls the aforementioned group. As a result of this control, the Nunavut Liquor Enforcement and Inspections Division is consolidated into the Nunavut Liquor Commission in preparing these consolidated financial statements. In addition, there are no related party transactions, except with the Government of Nunavut.

The attached Schedules of Income and Expenses segregate the financial results of the operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division on a stand-alone basis.

### **2. Significant Accounting Policies**

#### **(a) Consolidated Financial Statements**

NLC's accounting policies are guided by the Canadian Institute of Chartered Accountants' Handbook. As such, the consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

#### **(b) Basis of Consolidation**

The consolidated financial statements include the assets and liabilities and results of operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division, over which the Nunavut Liquor Commission exhibits control by managing and directing the Nunavut Liquor Enforcement and Inspections Division. There were no inter-entity balances and transactions which had to be eliminated in determining the consolidated figures.

# **NUNAVUT LIQUOR COMMISSION**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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March 31, 2009

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### **2. Significant Accounting Policies (Continued)**

#### **(c) Measurement Uncertainty**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires the use of estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated financial statements, management believes the estimates and assumptions to be reasonable. Significant management estimates include the liability for bottle deposit outstanding, services received without charge, the provision for employee future benefits and the useful lives of equipment.

#### **(d) Cash**

A small cash float is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Government of Nunavut Consolidated Revenue Fund while all expenses of NLC are paid directly by the Government of Nunavut through the Consolidated Revenue Fund.

#### **(e) Inventories**

Inventories consist of alcohol products valued at the lower of cost or net realizable value on a first-in, first-out basis.

#### **(f) Accounts Receivable**

Accounts receivable are valued at the lower cost and net recoverable value. Valuation allowances, if necessary, are recorded based on all circumstances in existence at the balance sheet date that are known at the date these consolidated financial statements are prepared.

#### **(g) Property and Equipment**

Equipment is initially recorded at cost, and is subsequently amortized to expense. Amortization expense is recognized on a declining balance basis over the estimated useful life of the assets. In the year of purchase, amortization is applied at half the normal rate. The rates are as follows:

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Computer hardware	30%
Computer software	100%
Furniture and equipment	20%

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# **NUNAVUT LIQUOR COMMISSION**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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March 31, 2009

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### **2. Significant Accounting Policies (Continued)**

#### **(h) Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave liabilities have been included in accrued liabilities.

#### **(i) Bottle Deposit Liability**

The bottle deposit liability is estimated based on the last three months of sales, to allow time for licensees and clients to return recyclables for refund.

#### **(j) Deferred Revenue**

Revenues received in advance of goods being provided or services being performed are deferred. The amount is subsequently taken into income when the related goods are provided, or services are performed.

#### **(k) Employee Future Benefits**

##### Non-pension Benefits

Under the conditions of employment, eligible employees may earn non-pension benefits for severance, retirement and removal based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service and has been determined based on management's assumptions and best estimates. The NLC provides severance, retirement and removal benefits to eligible employees based on years of service, final salary and community of residence.

##### Pension Benefits

Eligible employees of the NLC participate in the Public Service Pension Plan administered by the Government of Canada. The employees and NLC contribute to the cost of the Plan. The NLC's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. The NLC contributed at a rate of 2.02 times the employees contribution for the calendar year of 2009 (2.02 times for the calendar year of 2008). These contributions are charged to expenditures on a current year basis, and represent the total pension obligation of the NLC. NLC is not obligated under present legislation to make contributions to actuarial deficiencies of the Public Service Pension Plan.

# **NUNAVUT LIQUOR COMMISSION**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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March 31, 2009

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### **2. Significant Accounting Policies (Continued)**

#### **(l) Revenue Recognition**

Revenue from sales of liquor and import fees are recorded when the customer places their order, it has been paid in full and the products have been shipped.

Revenue from licence fees and permits are recognized on a straight-line basis over the term of the licence. Licences do not exceed one year.

#### **(m) Expenses**

Expenses are recorded on an accrual basis. These expenses are paid directly by the Government of Nunavut through the Consolidated Revenue Fund.

#### **(n) Services Provided Without Charge**

Audit services are provided without charge to the NLC. No amount has been recognized in these financial statements in respect to the services provided.

#### **(o) Financial Instruments**

The NLC has elected the following Balance Sheet classifications with respect to its financial assets and financial liabilities:

- Cash is classified as "assets held-for-trading" and are initially measured at fair value.
- Accounts receivable are classified as "loans and receivables" and are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities and due to the Government of Nunavut are classified as "other financial liabilities" and are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

The NLC has no financial instruments which have significant terms and conditions which may affect amount, timing and the certainty of future cash flows.

The NLC has no assets pledged.

The estimated fair values of these financial instruments are approximated by their carrying amounts due to the relatively short period to maturity of these instruments.

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2009

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### 2. Significant Accounting Policies (Continued)

#### (p) Due to the Government of Nunavut

The *Liquor Act (Nunavut)* requires the NLC to present the amount owing to the Government of Nunavut. This is calculated by summing the following amounts: The Balance owing at the end of the prior year, the Net Income earned during the year less the net funds transferred to the Government of Nunavut during the year. The ending balance is normally carried forward to be funded from future year's net and comprehensive income.

This balance is a non-interest bearing liability.

#### (q) Comprehensive Income

Comprehensive income is composed of the NLC's net income and other comprehensive income, and requires certain unrealized gains and losses resulting from changes in fair value of certain financial instruments, that would otherwise be recorded as part of net income, to be presented in other comprehensive income until such a time as it is considered appropriate for them to be recognized in net income. The NLC has no transactions resulting in other comprehensive income.

### 3. Adoption of Accounting Standards

Effective April 1, 2008, the NLC adopted the following sections of the *The Canadian Institute of Chartered Accountants ("CICA") Handbook*.

#### (a) Capital Disclosures

*Section 1535 - Capital Disclosures.* This section requires the NLC to disclose information that enables users of its financial statements to evaluate the NLC's objectives, policies and processes for managing capital, quantitative information about what the NLC requires as capital and disclosures of any externally imposed capital requirements, as well as the consequences for non-compliance (note 10).

#### (b) Financial Instruments - Disclosure and Presentation

*Section 3862 – Financial Instruments – Disclosure.* This section requires disclosures that enable users to evaluate the significance of financial instruments on the NLC's financial position and performance; the nature and extent of risks arising from financial instruments to which the NLC is exposed during the year and at the balance sheet date; and how the NLC manages those risks (note 11).

*Section 3863 – Financial Instruments – Presentation.* This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset (note 11).

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2009

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### 3. Changes in Accounting Policies (Continued)

#### (c) General Standards of Financial Statement Presentation

*Section 1400 – General Standards of Financial Statement Preparation.* This standard includes requirements to assess and disclose NLC's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The adoption of the above section have no impact on the NLC's consolidated financial statements.

#### (d) Inventory

*Section 3031 – Inventory.* This section provides changes to the measurement and more extensive guidance on the determination of cost, narrows permitted cost formulas, requires impairment testing, and expands the disclosure requirements to increase transparency (note 5).

### 4. Future Accounting Changes

The CICA issued new accounting standards which will be in effect for NLC's 2009-2010 fiscal year.

#### (a) Goodwill and Intangible Assets

The CICA has issued *Section 3064 - Goodwill and Intangible Assets*, which replaces *Section 3062 - Goodwill and Other Intangible Assets* and *Section 3450 - Research and Development Costs* and is effective for financial statements relating to fiscal years beginning on or after October 1, 2008. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (such as systems development costs). Management expects that adoption of the new standard will not have a material impact on the NLC's consolidated financial statements.

#### (b) Public Sector Accounting (PSA)

In December 2009, the Public Sector Accounting Board (PSAB) issued an amendment to the Introduction to Public Sector Accounting Standards of the PSA Handbook. This amendment eliminated the Government Business Type Organizations (GBTO) classification and entities currently classified as GBTO are required to re-assess their classification.

Under the revised introduction, the NLC is classified as an Other Government Organization (OGO). As an OGO, NLC has determined the most appropriate basis of accounting to meet the needs of the users of its financial statements to be the standards issued by the Public Sector Accounting Board. NLC will adopt the standards issued by the Public Sector Accounting Board for its fiscal year beginning April 1, 2011. The NLC is currently evaluating the impact of the adoption of these standards.

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

### 4. Future Accounting Changes (Continued)

#### (c) Financial Instruments - Disclosures

In June 2009, the CICA made amendments to *Section 3862 - Financial Instruments* to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises and other entities that choose to apply this Section. These amendments apply to the NLC's fiscal year ended March 31, 2010.

### 5. Inventories

	2009	2008
Spirits	\$ 207,217	\$ 188,849
Wine	69,795	87,920
Beer	761,984	603,070
Coolers and ciders	7,081	6,272
	<hr/> \$ 1,046,077	<hr/> \$ 886,111

Inventories during the year were written down in the amount of \$20,000 to reflect the lower of cost or net realizable value.

### 6. Property and Equipment

	2009	2008		
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	\$ 29,679	\$ 24,506	\$ 5,173	\$ 6,291
Computer software	50,777	50,777	-	-
Furniture and equipment	97,638	49,731	47,907	59,884
	<hr/> \$ 178,094	<hr/> \$ 125,014	<hr/> \$ 53,080	<hr/> \$ 66,175

# **NUNAVUT LIQUOR COMMISSION**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

March 31, 2009

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### **7. Employee Future Benefits**

#### Non-pension Benefits

NLC provides non-pension benefits to its employees for severance and removal costs. No employees at the current time meet the criteria for severance and removal costs.

#### Pension Plan

NLC and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

	2009	2008
Employer's contributions	\$ 104,561	\$ 86,323
Employees' contributions	\$ 51,763	\$ 41,008

The Employee Future Benefits accrued by the NLC for the current year relate to accrued leave benefits.

### **8. Commitments**

There is a ten year lease effective April 1, 2004, expiring April 1, 2014, for warehouse and office premises in Rankin Inlet. A five year lease agreement, effective April 1, 2007, and expiring April 1, 2012, for the liquor warehouse in Iqaluit valued at \$120,000 per year is also in place. The minimum annual lease payments (which do not include any amount relating to the lease commitment for the liquor warehouse in Iqaluit, as per note 9) are as follows:

Fiscal year ending March 31	Total
2010	\$ 315,040
2011	281,516
2012	281,516
2013	281,516
2014	281,516
	<hr/>
	\$ 1,441,104

# NUNAVUT LIQUOR COMMISSION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

---

March 31, 2009

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### 9. Related Party Transactions

The NLC is related in terms of common ownership to all of the Government of Nunavut created departments, agencies and Territorial corporations. The NLC enters into transactions with these entities in the normal course of business at normal trade terms. All sums collected by the NLC are deposited directly into a Government bank account, and the Government of Nunavut pays for all of the expenses of the NLC. Expenses include the following services provided by the Government of Nunavut at cost and Qulliq Energy Corporation at normal trade terms, during the normal course of business:

	2009	2008
Government of Nunavut:		
- Communications	\$ 7,299	\$ 9,538
- Rent (note 8)	120,000	120,000
- Repairs and maintenance	48,389	24,251
- Utilities (water, sewer and fuel)	26,224	24,958
Qulliq Energy Corporation		
- Utilities (electricity)	14,630	13,980
	<hr/> \$ 216,542	<hr/> \$ 192,727

### 10. Capital Management

NLC's capital is cash, it has no Contributed Equity. NLC is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding \$6,500,000 to finance its operations. The NLC did not request any working capital advanced for the 2008-09 fiscal year.

All revenues collected by the NLC are deposited into a bank account controlled by the Government of Nunavut. As the Government of Nunavut controls all cash deposited by the NLC, the Government of Nunavut pays for all the expenses of the NLC.

# **NUNAVUT LIQUOR COMMISSION**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

March 31, 2009

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### **11. Financial Instruments and Risk Management**

**Fair Value** - The fair values of accounts receivable, inventory, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity dates. It is not practicable to estimate the fair values of amount Due to Government of Nunavut as a result of the non-arm's length nature of the instruments.

**Credit Risk** - Credit risk refers to the potential that a customer or counter party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the NLC's receivables from customers. NLC has minimum exposure to credit risk from customers as collection is made prior to sales. Where necessary, the NLC performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses.

**Interest Rate Risk** - Interest rate risk is the risk that the fair values of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The NLC is not exposed to interest rate risk; because, the NLC has no investments or debt.

**Liquidity Risk** - Liquidity risk is the risk that the NLC will not be able to meet its financial obligations as they fall due. The NLC is not exposed to liquidity risk; because, the Government of Nunavut pays for all the expenses of the NLC.

**Foreign Currency Risk** - The NLC is not exposed to risk arising from fluctuation in foreign exchange rates since it enters into sales and purchase transactions denominated in Canadian currency.

Unless otherwise noted, it is management's opinion that NLC is not exposed to other significant interest, currency or credit risks arising from these financial instruments.

**NUNAVUT LIQUOR COMMISSION**  
**SCHEDULE OF INCOME AND EXPENSES - NUNAVUT LIQUOR COMMISSION**

For the year ended March 31,	2009	2008
<b>Sales</b>	<b>\$ 5,098,236</b>	<b>\$ 4,801,633</b>
<b>Cost of Sales</b>	<b>2,305,276</b>	<b>2,232,776</b>
<b>Gross Margin</b>	<b>2,792,960</b>	<b>2,568,857</b>
<b>Other Income</b>		
Import fees	-	-
Licence, fees and permits	-	-
	2,792,960	2,568,857
<b>Expenses</b>		
Salaries and benefits	1,130,101	1,064,165
Rent	401,516	401,516
Bottle deposits refund	202,375	152,679
Utilities	82,835	71,874
Professional fees	62,200	7,659
Repairs and maintenance	53,570	32,182
Office	48,900	75,015
Travel	36,724	56,816
Bank charges and interest	34,691	17,328
Amortization	13,095	20,240
Communication	7,357	9,723
Advertising and promotion	5,657	32
Contractor fees	3,115	11,422
Bad debt provision	3,077	-
Honoraria	-	9,275
Computer services	-	887
Penalties and interest	-	10,236
	2,085,213	1,941,049
<b>Net Income and Comprehensive Income</b>	<b>\$ 707,747</b>	<b>\$ 627,808</b>

## NUNAVUT LIQUOR COMMISSION

### SCHEDULE OF INCOME AND EXPENSES - NUNAVUT LIQUOR ENFORCEMENT AND INSPECTIONS DIVISION

For the year ended March 31,	2009	2008
<b>Sales</b>	\$ -	\$ -
<b>Cost of Sales</b>	-	-
<b>Gross Margin</b>	-	-
<b>Other Income</b>		
Import fees	512,431	465,282
Licence, fees and permits	168,359	160,618
	680,790	625,900
<b>Expenses</b>		
Salaries and benefits	232,627	283,957
Contractor fees	98,161	134,409
Travel	14,956	20,542
Office	12,685	6,712
Communication	4,067	-
Computer services	-	2,689
	362,496	448,309
<b>Net Income and Comprehensive Income</b>	\$ 318,294	\$ 177,591